MONETARY RECONSTRUCTION

CARL STROVER

LIBRARY
Brigham Young University
From The author
Call No. 332.4044 Acc. No. 52277
SL-89 m

B

gift author

332.4044
S789m

MONETARY RECONSTRUCTION

—BY—

CARL STROVER

BRIGHAM YOUNG UNIVERSITY
LIBRARY
PROVO, UTAH

52277

Published by the Author
133 West Washington Street
CHICAGO

Copyright 1922
By CARL STROVER
All Rights Reserved

Printed in United States of America.
413

DEDICATED
TO THOSE WHO ARE WORKING
FOR THE PROGRESS OF MANKIND
TO HIGHER AND RICHER LIFE

INDEX

Page

INTRODUCTION IX

Present Monetary Conditions. A New Monetary System Needed.

CHAPTER I. 1

Practicability of Sound Paper Money Without Any Metallic Base, and Without Any Promise of Redemption

Attainment of Stability of Average Commodity Prices by Means of Such Money. Design of Such Money. Elimination of Other Currencies. Impracticability of Purely Metallic Money. Necessity of Money in General.

CHAPTER II. 16

Stability of Average Purchasing Power, with Reference to Commodities, the Most Necessary Quality of Sound Money

Effects of General Rises and Falls of Commodity Prices. Curbing of Speculative Fevers, and of

Page

Depressions and Panics. Tariff, War and "Overproduction" Crises. "Supply and Demand." Importance of Stable Money for Full Development of National Productive Capacity. Impracticability of Money Kept Stable with Reference to Labor. Prevention of General Price Fluctuations Irrespective of Their Cause.

CHAPTER III. 38

Comparison of Monetary Standards and Systems

Gold Standard. Silver Standard. Bimetallism. Paper Standards. Mixed Standards. "Elastic" Systems. Control of Prices by Note Issues, Loans and Discounts of Central Banks. The Federal Reserve Bank System. Credit-Money in General. Discrepancy Between Gold Standard Obligations and Gold Available for Their Payment. Metallic Systems Bound to Break Down Under Severe Strain, and Subject to Manipulation. Labor-Check Money. The Fisher Plan for Stabilization of the Dollar.

CHAPTER IV. 65

Practical Inauguration and Management of the Proposed System

A. In the United States.

Creation of Monetary Commission. Weekly Ascertainment of Wholesale Prices. Formation of Price-

Page

Index. Representation of Commodities and Markets. Stabilization of the Dollar With Reference to the Price-Index. Establishment of the New Money as Standard Legal Money. Retirement of Present Circulating Media. Payment of Gold Obligations.

B. In Foreign Countries.

CHAPTER V. 80

Incidental Advantages of the Proposed System

Inexpensiveness. Saving of Taxes. Financial Emancipation. Aid to Co-operative Banking. Stabilization of Economic Relations. Elimination of Redemption Risks. Elimination of Hoarding. Reduction of Danger of Over-Issues. Protection Against Foreign Monetary Disturbances. Stabilization of Foreign Exchange. Elimination of Uncertainty of Money Market. Increasing of Real wages. Speedy Revival of Business and Employment.

INTRODUCTION

PRESENT MONETARY CONDITIONS. A NEW MONETARY SYSTEM NEEDED.

The so-called civilized world is once more in the throes of monetary convulsions—convulsions more violent and widespread than any others recorded in history.

Even in the United States, abundantly supplied with wealth of all kinds, and economically stronger than any country ever was, financial distress prevails,—so much so that over five million people were reported to be involuntarily idle during the year 1921. That this condition is primarily due to a contraction of our currency and of credits is commonly conceded. Yet contraction was necessary if we desired to securely maintain a sound gold standard monetary system.

Such foreign countries as are acting on similar principles as the United States, and are contracting their currencies or credits, are ex-

periencing similar troubles,—business depression and unemployment.

On the other hand, countries which keep on expanding their currencies, like Germany, are enjoying continued business activity, and are practically free from unemployment. Yet anybody who cares to look beneath the surface, will discover that such activity is to a large degree offset by intense suffering, resulting from constantly increasing prices, and from the diminution of the purchasing power of all fixed money incomes. Besides, no currency can be expanded indefinitely without becoming finally worthless. Hence these countries, too, are threatened with financial disaster. Not only that, but under prevailing theories of sound financial management, no practicable means for rehabilitation is in sight for these countries, except first stabilization, and then, in order to get back to a gold standard, gradual contraction with its long-continued agony of depression and want,—all that notwithstanding the fact that civilized humanity's powers to satisfy economic wants have at least trebled or quadrupled during the last 100 years.

Is there no remedy for such conditions?

X

Is the gold standard such a wonderful institution that for its preservation or attainment (as the case may be) mankind should undergo suffering and losses which in the aggregate are almost beyond comprehension?

Or are we worshiping a golden calf, and rendering sacrifices to a mere idol?

About 25 years ago the writer had become much interested in questions of value and prices, and did some original work pertaining to these subjects (see article on "Utility and Cost as Determinants of Value," in The Annals of The American Academy for Political and Social Science, November, 1897). In this connection he devised the monetary system hereinafter advocated, in its principal features, but on offering an article describing it, as then formulated, under the title of "The Coming Money," to The Annals for publication, he found that shortly before (1897-1898) similar systems had been advocated by Parsons, Pomeroy and Wallace. Because of these anticipations, and also because the increasing gold output temporarily solved the money question to the satisfaction of the great majority of the people, and finally because the writer be-

came engrossed in other work, he dropped the subject for the time being.

But ever since then he has watched and observed contemporary price and money phenomena, and has kept on mentally weighing the practicability of the monetary system devised by him, in the light of such observations. The result has been that his confidence in the practicability of that system has increased as the years went by, and he has become more and more convinced that it is practically as well as theoretically very much superior to the gold standard system, and to all other monetary systems that are at present in vogue or being advocated.

In view of the present breakdown of the gold standard system, and the terrible consequences attendant upon that breakdown, the writer deems it a duty as well as a privilege to now advocate the establishment of the monetary plan hereinafter described,—all the more so because the work of the writers who anticipated him, has not borne practical fruit in that direction.

The writer's system can readily be substituted in place of the gold standard system, the

paper moneys of Europe, and any other monetary system. Such substitution may be made without any material disturbance of industry and trade, and with immediate and lasting benefit to each commonwealth inaugurating it. Its adoption will mean the saving of immense wealth, the avoidance of well-nigh inconceivable suffering and injustice, and the stabilization of business to an extent heretofore deemed possible by but few men.

The writer is, of course, aware of the fact that a mere reconstruction of the monetary system will not bring on the millennium. Many other serious social problems will remain to be solved. But the establishment of the monetary system hereinafter advocated will greatly facilitate the solution of them all.

Those who are interested in the establishment of the proposed system, are cordially invited to communicate with the author.

CARL STROVER.

133 West Washington Street,
Chicago.

MONETARY RECONSTRUCTION

CHAPTER I.

PRACTICABILITY OF SOUND PAPER MONEY WITHOUT ANY PROMISE OF REDEMPTION

ATTAINMENT OF STABILITY OF AVERAGE COMMODITY PRICES BY MEANS OF SUCH MONEY. DESIGN OF SUCH MONEY. ELIMINATION OF OTHER CURRENCIES. IMPRACTICABILITY OF PURELY METALLIC MONEY. NECESSITY OF MONEY IN GENERAL.

It is not only possible, but thoroughly practicable, to create a sound monetary system without a metallic base and without a promise to redeem the circulating medium of such a system in any manner whatever.

Such a system may be established by issuing properly limited quantities of legal paper money, that is, paper money which is a legal means of payment for all charges, obligations and debts, public and private, at face value, except where otherwise provided by legal contract.

The main reason why paper moneys heretofore issued which were not redeemable in gold or silver or other valuable commodity, for the most part became valueless, is that they were issued without proper limitation of quantity.

The French assignats and the paper money of the American Confederacy are usually cited as classical examples of what will happen to a paper money which is not sufficiently backed up by metallic money. But in either case material depreciation took place only because there was a broken promise of redemption, and because no proper limitation was put on quantity of issue. It was the same with most of the so-called "greenbacks" issued by the United States during the civil war, and with the paper moneys which were issued during the late world war by the various states of Europe. If these paper moneys had been limited in amount with reference to stability of purchasing power, and had carried no promise of redemption, they would not have depreciated except in the case of those states which practically collapsed.

The foregoing naturally suggests the query: "How can paper money have a substantial value

if it is not backed up by a reliable promise to redeem it in something of commodity value?" The answer to this question is as follows: Every modern commonwealth and its subdivisions exact certain very large amounts of money in taxes, import duties and special assessments. It also prescribes, directly or indirectly, the charges which are to be made for the carrying of mail, freight and passengers; the charges for telephone, telegraph and wireless service; water, light and power rates, etc.; and innumerable license fees and other public dues. All of these items are payable in legal money, and any legal money must be accepted in payment of them. In addition all ordinary obligations between individuals and corporations, among them all ordinary payments to and by banks, are payable in legal money. Any bank which would attempt to accept only gold deposits and to pay only in gold, would quickly lose most of its business. The same would be true of any mercantile concern that would accept only gold in payment of its goods. Under these circumstances if a sovereign state, able to enforce its laws, makes pieces of paper of a certain character a legal means for the payment of taxes, import

duties, license fees, assessments, charges for transportation of passengers and freight, postage, telephone, telegraph, water, light and power rates, rent, wages and public and private debts, it thereby creates a very great demand for such pieces of paper, and thus confers upon them an indubitable value, provided the quantity of such pieces of paper is properly limited, no matter whether or not such pieces of paper are backed up by any promise to redeem them in anything whatever, and even though such obligations as are specifically by legal contract made payable in a specific kind of money, such as gold, are not payable in such paper money at face value.

To visualize the truth of this statement, let us assume that the United States in the year 1907 had issued, say, ten million dollars of such irredeemable paper money, and had printed for instance the one hundred dollar units of this money with the following simple legend, and had backed up such legend with an appropriate law: "Money of the United States of America. One Hundred Dollars. This money constitutes a legal means of payment, according to its face value, throughout the United States, for the payment of all taxes,

assessments, and import duties, and of all charges and debts, public and private, except as otherwise provided by legal contract." Can there be any doubt that the money thus created would have circulated in the United States on an absolute parity with the gold dollar?

Let anybody who has any doubt on this subject, place himself in the mental position of a private individual or banker who had come into the possession of some of this money. Would such a party even for a moment have entertained the thought of giving up any amount of this money for less than an equal amount in gold dollars? Why should he? He might have bought postage stamps with this money. He might have paid debts and rents with this money at face value (except where gold or some other specific medium for payment was specified). He might have used is for the payment of import duties, taxes, etc. He might have used it for the payment of telegraph, water, light and power rates and license fees. And in each instance (except as mentioned) the law would have enforced its acceptance. With billions of dollars to be annually paid for such purposes in the United States, ten million

dollars of such money would have been on a parity with all other legal money of the United States.

Assume now that the United States should have increased the amount of such money in circulation from ten million dollars to one hundred million dollars, withdrawing at the same time from circulation an equal amount of other paper money. In 1907 the United States had a total circulation and stock of money amounting to about sixteen hundred million dollars in gold, seven hundred million dollars in silver, and six hundred million dollars in uncovered paper money. It is manifest that the substitution of one hundred million dollars of the new for the old paper money would have hardly caused a ripple in the financial situation of the United States, and that every dollar of it would have circulated on a parity with other United States money.

Assume next (see Note 1) that the United States had thereupon in some way retired from

---

NOTE 1.—The order of operations here assumed would hardly be the most practical for the actual introduction of the monetary system here advocated (as to that see Chapter IV), but it lends itself well to an elucidation of the underlying principles upon which that system is based.

circulation all other paper money (including the National Bank Notes), except gold and silver certificates, and had substituted nothing in place of it. Is it not manifest that in such a case (other conditions remaining unchanged) average commodity prices in the United States would have fallen (on account of the diminution of the amount of money in circulation), and that the value of the gold and silver remaining in circulation would have risen so as to buy more goods per unit than before? Nobody who is even but moderately acquainted with financial phenomena, will have any doubt on this point.

Assume next that the United States thereupon had in some way withdrawn from circulation all of the silver dollars and all silver certificates, and had substituted no other money in place of them. Is it not manifest that such action (other things remaining equal) would have resulted in the further increase of the purchasing power of gold, and that the value of each dollar of the paper money above suggested would have risen with the value of the gold dollar?

Just what the total rise of the value of the gold dollar would have amounted to, is proble-

matical because the void created by the withdrawal of the old paper money and the silver money would to a very large extent have been filled by the influx of gold from other countries. But the increased demand for gold thus created would unquestionably have resulted in some material rise in the purchasing power of the gold dollar, and with it unquestionably in a like rise of the value of the small amount of the new paper money, which, under the conditions assumed, would have been the only legal money aside from gold and subsidiary coin.

Assume next that the United States thereupon had enacted a law to the effect that additional quantities of the new paper money should be issued until the level of average wholesale commodity prices in the United States had again risen to where it used to be before the silver and old paper money had been withdrawn from circulation, and that after that level of prices had been attained, there should be issued or withdrawn from circulation (preferably through the purchase or sale, respectively, of United States bonds) from week to week sufficient quantities

of the new money to keep the average level of wholesale commodity prices in the United States substantially stable. Can there be any question but that such a thing could have been successfully done as long as the United States endured as a sovereign commonwealth, able to enforce its laws?

Whoever has any doubt on this point should consider that, under the conditions assumed, as soon as the level of wholesale commodity prices in the United States had risen above the normal level fixed by the government, the government would have withdrawn, not a fixed amount, but **A SUFFICIENT AMOUNT**, of the hypothetical money referred to, to bring prices down to the normal level; and that, likewise, as soon as prices had begun to fall below the normal level, it would have injected into the circulation **A SUFFICIENT AMOUNT** of the hypothetical money to again raise prices to the normal level. What amount might have been required in each instance, could not have been predicted, but it would not have been necessary to theorize on that matter, as all additions to, and withdrawals from, the circulation would have been made not on a basis of theo-

retical rules, but on the basis of actual observations of the market from week to week.

There would, however, have remained an important factor of disturbance and uncertainty by reason of the continued existence of large quantities of United States gold coin, of legal tender quality, in connection with the prevailing laws for the free coinage of gold.

For one who has always regarded the value of gold as something intrinsic and fixed, it may be hard to imagine that any disturbance or uncertainty could have arisen from this source. But suppose that somebody had put into extensive operation a process for making gold cheaply out of other substances (see Note 2). In such case, under the conditions assumed, a flood of cheap gold coin would have made it impossible to maintain the value of the hypothetical paper money suggested. For the complete safeguarding of the new monetary system, as well as for considerations of national economy, the total elimination of

---

NOTE 2.—Modern science is actually looking forward to such a discovery. The opinion that gold, in common with most other "elements," is a composite substance, is gaining more and more ground.

gold as legal money would, therefore, have been desirable.

Assuming, then, that, as a final step in the institution of the new monetary system, the United States had discontinued the free coinage of gold, and had discontinued gold coins as legal money, the consequence would have been the speedy elimination of gold from the monetary circulation of the United States. Most of the gold probably would have been exported. This would have had the double effect of increasing the ownership of foreign securities and foreign properties by Americans, and of reducing the indebtedness of the United States Government through the purchase of large quantities of bonds in connection with the issue of large additional amounts of the new money, required to take the place of the dwindling gold circulation, besides removing the menace, to stability of commodity prices, arising from the continued use of gold as part of the circulation.

After all other moneys had in such manner been eliminated as lawful moneys of the United States, can any reason be found why the hypothetical money, above described, could not have

been steadily maintained at the normal value fixed by the United States with reference to average wholesale commodity prices, by either withdrawing from, or injecting into, the circulation from time to time a sufficient quantity of the new money to bring about such result?

About the only happenings which could make it impossible to do so, would be wholesale counterfeiting or a total collapse of the United States. But these eventualities could not be met any better by any other paper money, and would leave as the only alternative either the exclusive use of metallic money, or the total abolition of all money.

As to the exclusive use of metallic money, that would be impracticable, (a) because it would still further accentuate monetary difficulties; (b) because metallic money is awkward to handle in large sums; and (c) because the expense of procuring an adequate supply of desirable metallic money (gold or silver) would be prohibitive.

As to doing away with all money, such a step would be retrogression of the worst kind, except in an ideal society in which everybody could be relied upon to faithfully perform his fair share of

the labor required to provide the community with all necessaries and comforts, and not to appropriate for himself, and his friends and relations, more than a fair share of such necessaries and comforts. Under all other conditions money (in connection with book and bank accounts, and checks and other representatives of money), affords a better and more convenient means of compensation, payment, exchange, purchase and taxation than anything else yet devised or suggested. The abuses connected with the use of money can mostly be done away with, partly by the introduction of the monetary system herein proposed; partly by remedial legislation in other directions, including modifications in the laws for collection of interest (see Note 3) and debts,

---

NOTE 3.—As long as money can buy income-producing or utility-yielding property, such as farms, houses, resorts, printing plants, orchards, draft horses, milch cows, tractors, etc., there is no good reason for holding that men should not receive interest on money.

Fundamentally there is no difference between a man receiving money (rent) for the loan of a farm or an apartment house or a printing plant, and a man receiving money (interest) for the loan of an equivalent sum of money, such as would buy the farm or apartment house or printing

recasting of the present laws of descent, and extension of public control and ownership; and partly by better education and the building up of character. To do away with money on account of the abuses now connected with its use,

---

plant.

Perhaps the position of the money lender is somewhat more liable to be abused; but that is largely due to our defective monetary system. But even under that system men who can obtain plenty of credit are commonly successful:—showing plainly that borrowing money and paying interest is by no means synonymous with being taken advantage of, as some extremists would have us believe.

Interest on money is a perfectly natural incident of freedom of exchange, enterprise and contract.

In so far as it leads to oppression, it may be curbed by proper usury and collection laws, and by homestead and exemption laws; and in so far as it leads to excessive private accumulation, its effects may be offset by income, inheritance and other taxes, and by reasonable extension of public control and ownership.

A money of stable purchasing power the supply of which cannot be cornered, will do away with a large proportion of the evils which at present arise from the loaning and borrowing of money, as will be hereinafter more fully shown.

Incidentally it may be stated that under modern conditions money loaning has no tendency to hold money out of use. On the contrary, it promotes the continuous employment and circulation of money.

would be like doing away with railroads and modern power machinery on the ground that many grievous abuses have grown out of their use. The remedy lies not in doing away with great and helpful inventions, but in so managing their use as to increase their helpfulness while decreasing the attendant evils. Money is one of the greatest inventions ever made by mankind, and cannot be discarded, at least not until men have actually become much more perfect than they now are, except at a tremendous sacrifice, entirely out of proportion to any benefits which might be realized from the discarding of money.

CHAPTER II.

STABILITY OF PURCHASING POWER WITH REFERENCE TO COMMODITIES THE MOST NECESSARY QUALITY OF SOUND MONEY

EFFECTS OF GENERAL RISES AND FALLS OF COMMODITY PRICES. CURBING OF SPECULATIVE FEVERS, AND OF DEPRESSIONS AND PANICS. TARIFF, WAR AND "OVERPRODUCTION" CRISES. "SUPPLY AND DEMAND." IMPORTANCE OF STABLE MONEY FOR FULL DEVELOPMENT OF NATIONAL PRODUCTIVE CAPACITY. IMPRACTICABILITY OF MONEY KEPT STABLE WITH REFERENCE TO LABOR. PREVENTION OF GENERAL PRICE FLUCTUATIONS IRRESPECTIVE OF THEIR CAUSE.

Of all qualities that are not common to all of the various moneys which have a claim for consideration in modern civilization, the most necessary, vastly overshadowing in importance all others, is substantial stability of purchasing power.

While this truth is commonly ignored (notwithstanding able economists and statesmen have

from time to time laid much stress on it), the reasons for it are written indelibly with bitter tears and with suffering immeasurable, aye with blood, into the histories of men, women, families, nations and mankind.

Every great and prolonged fall in the purchasing power of the circulating medium of a nation has had, after a period of initial prosperity, most unfortunate consequences. It reveals itself most clearly in a great and general rise of commodity prices. Such a rise of prices on the one hand imposes great hardships on all citizens who work for fixed salaries or customary wages; has a tendency to bankrupt concerns and individuals which by contract or charter are obliged to furnish service or goods at fixed prices; creates discontent and inefficiency among the working people whose wages scarcely ever rise as fast as the cost of living under such conditions; does great injustice to those who have earned fixed pensions, or have become entitled to annuities or other payments by way of insurance; places at a great disadvantage everybody who has let property for long periods at fixed rentals, or has sold property on deferred installments;

and inflicts a great wrong on every creditor.

When such a general rise of prices goes to extremes, due to great inflation of the currency, as it did in France during the revolution, due to the excessive issue of assignats; as it did during and after the world war in Russia, Poland, and Austria; and as it is now doing in Germany, Jugoslavia and other European countries, its result is practically confiscation, for the benefit of debtors and speculators, of savings, insurance accumulations, bank accounts, loans secured by mortgages and other securities:—carrying with it despair, desolation, cold, hunger, sickness, starvation and death for multitudes of careful, thrifty and hard-working individuals and families, while those who have accumulated money by unfair means, usually manage to escape disaster by superior nimbleness in money matters, and by unscrupulous taking advantage of the opportunities for speculative enrichment offered by the unusual situation.

But even where only a comparatively moderate general rise of prices takes place, as, for instance, in the United States during the years from 1861 to 1867, and from 1914 to 1920, its

bad consquences, above described, are felt with great force, and entail very great hardships on wide circles of the population.

It is true that under such conditions production is greatly stimulated because almost any kind of business can be done at a profit, by reason of the general rise in prices during the interval between investment and sale (see Note 4); and while labor suffers from high prices, it is at least generally provided with steady employment. But the very ease with which profits are realized

---

NOTE 4.—A peculiar, and yet natural feature of such conditions is that shortly after each new inflation of the currency a very real scarcity of currency is felt, due to the unnatural stimulation of speculation and credit expansion incident to each new inflation. It is thus that inflation has a fatuous tendency to breed more inflation. This tendency has led many otherwise careful writers to condemn irredeemable paper money on the ground that it appears to have an irresistible tendency to lead to successive inflations and final collapse. These writers all base their conclusions on experiences with irredeemable paper moneys the issues of which resulted in successive inflations of average commodity prices, and fail to see that the evil which they ascribe to irredeemable paper currency, was really due to inflation; that the same evil inheres in credit inflation; and that it will be necessarily absent from such a circulation of irredeemable paper money as does not involve inflation.

under such conditions by those who are actively managing industrial or mercantile enterprises, by those who have property to sell, and by those who are buying and selling for profit, leads to extravagant habits, reckless speculation, and unconscionable price-boosting and profiteering, with the result that the whole economic life is thrown out of joint, strikes and industrial dissensions abound, and regular and steady processes of production and distribution are replaced by a fitful gamble which fosters discontent, tends to destroy efficiency and thrift, undermines character and breeds corruption. Furthermore, under such conditions buying is always unduly stimulated, because everybody desires to protect himself against further rises of prices. This commonly leads to an abnormal accumulation of commodities and other property in the hands of manufacturers, wholesalers, retailers and speculators buying on margins, and, coincident with that, to an extraordinary expansion of credits, at high interest rates,—thus laying the foundation for an inevitable vicious reaction.

With present day monetary systems such a reaction often comes suddenly, initiated usually

by the bankruptcy of some great commercial, industrial or banking institution the fall of which affects great numbers of people and makes the business world realize that speculation and price boosting have been overdone. Or (as happened in the United States in 1920) a contraction or deflation of the currency or of credits, or both, is inaugurated by leading financial institutions as a matter of precaution. In either event average prices promptly proceed to fall, and a period of depression, sometimes developing into a general panic, ensues.

The effect of a considerable and general fall of commodity prices is even more baneful than that of a considerable general rise of commodity prices (see Note 5). While in such case those who have lent money on first-class security, and those who are employed at fixed salaries by public authorities or solvent concerns, are in a measure benefited because their holdings and salaries con-

---

NOTE 5.—Such falls of prices occurred in the United States, during the last 70 years, particularly from 1857 to 1859; from 1865 to 1879; from 1892 to 1897; and since 1920. In each case there was a great contraction of the currency or of credits, or of both.

stantly increase in value and purchasing power, even THEIR gains are in many cases offset by losses in other directions, such as reductions of salaries, losses on other investments, loss of employment by other members of the family, etc. For those who have agreed to make future payments by way of rent, purchase money, or license fees, and for those who are in debt, a continued general decline of commodity prices means great injustice and hardship, and often bankruptcy, loss of livestock or home by foreclosure, and all-around financial ruin,—partly on account of the increase in the weight of the obligations and debts themselves, and partly by reason of cancellation of orders, the necessity of working off stock and material at a loss on a dead market, heavy losses on bills and accounts receivable, and demands for payment of loans—usually all at the same time. It is but natural that under such conditions retrenchment and unemployment assume vast proportions, and that many failures and forced sales occur, attended by enormous losses.

But there is still a greater evil which arises from a steady general decline of prices:—Manufacturing, agricultural, mining and mercantile

concerns are commonly under the necessity of buying material and labor, or to contract for them, at fixed prices, usually many months, and often a year or more, ahead of the time when they may expect to sell their products or merchandise.

If, during the interval between investment and sale, a considerable fall of prices takes place, these concerns are unable to realize a fair profit. On a falling market people are reluctant to buy, continually expecting still lower prices, and between the period of investment and the time of sale prices often decline so much, in severe depressions, that the goods will not even sell at original cost price, due to the low figures at which like products sell in the open market, by reason of forced sales, bankruptcies, etc. The result of such conditions is general curtailment of business because on a falling market it pays better to loan out money on good security, even at low interest, than to keep it invested in active business. Money is therefore withdrawn from production and trade to a very large extent. The consequence is the throwing out of employment of multitudes of people; further curtailment of buying; still fur-

ther declines in prices; more bankruptcies, more unemployment, and so forth, in a vicious circle, often for many years, until finally the bottom is touched, with a few who happened to be careful money lenders, shrewd speculators, or owners of valuable public franchises or other monopolies, vastly richer than before, but the great multitude poorer than ever. The suffering of the poor and of those of small means is always most severe during such periods, due to lack of steady employment and to low wages; so much so that even in rich countries, such as the United States of America, during such periods of great price declines, as, for instance, from 1873 to 1879, and from 1895 to 1897, many died through exposure and through insufficient nourishment, and that, too, in the midst of an abundance of natural resources, abundant equipment for production, and while the country was in profound peace.

The present depression in the United States is little more than a year old, and yet the loss and damage resulting from it are already staggering.

With five million people out of employment, a large proportion of them being building me-

chanics, shipbuilders, draftsmen, engineers, machinists, foundrymen and other high-priced mechanics and professional men, the direct loss in salaries and wages alone, computed at an average of $4.00 per day, amounts to 20 million dollars per day, or about 500 million dollars per month, or six billion dollars per year. Distress has been acute, and still is acute, especially in the West and South. Loans, in many sections, are most difficult to obtain, even at high interest rates and on abundant security. Livestock is being reduced, to the great detriment of the nation, and many a thrifty farmer sees the fruits of years of toil being swept away, and, with his family, is cast, penniless, upon the world.

Now it is manifest that a legal money the purchasing power of which, with reference to average commodity prices, is kept substantially stable, by its very existence will prevent general rises and falls of commodity prices.

This assertion may startle those who have been accustomed to look upon periods of general rises and falls of prices as the unavoidable consequence of variations in the supply of, and the demand for, commodities, resulting from tariff

legislation, extraordinary demands for goods created by war, "overproduction," etc.

Yet anybody who has grasped the principles of the hypothetical money described in Chapter I above, can not help but concede that the assertion above made is true beyond the question of a doubt.

It may be objected that while the proposed monetary system will automatically prevent general rises and falls of commodity prices, it cannot thereby nullify the effects of a relative oversupply, or a scarcity of supply, of commodities, or the variations in the demand for commodities brought about by increase of consumption during wars, great increases of population, etc.; and that, therefore, periods of feverish business activity and mock prosperity, and periods of depression and general panic will occur under the proposed monetary system just as they always did, notwithstanding the prevention of general rises and falls of commodity prices by that system.

Even if this were wholly true, the proposed monetary system will still be of immeasurable benefit, because it will deprive periods of feverish business activity as well as periods of depression

and panic of their principal elements of mischief.

Without a general rise of commodity prices a period of feverish business activity will not lead to any great suffering by those dependent on fixed incomes or on customary salaries and wages; will not materially embarrass concerns which by contract or charter are obliged to furnish service or goods at fixed charges; will not do injustice to those who have earned fixed pensions, or have become entitled to annuities or other payments by way of insurance; will not place at an unfair disadvantage everybody who has let property for long periods at fixed rentals or has sold property on deferred installments; will not rob creditors; will not cause any general overstocking of the market; will not lead to the easy realization of great profits by mere speculative buying of commodities or other property; will not to any great extent promote strikes and industrial dissensions; and will not foster an undue expansion of credits.

Similarly, without a general fall of commodity prices, a period of business depression will not cause a great increase in the burden of fixed rents, license fees, purchase moneys and debts;

will not result in frantic contraction of credits; will not cause immense losses from continual declines in commodity prices, from forced liquidations, and from bad debts; and will not make it difficult to utilize idle hands, factories and raw materials for the relief of those suffering for the want of their products.

But it is not wholly true that, with the proposed monetary system in operation, periods of feverish business activity and mock prosperity, and periods of depression and general panic will occur just as they always did. The proposed system will decidedly diminish the chances for the occurrence of periods of general feverish business activity and mock prosperity, because it will eliminate the price-boosting effect of increases in the money supply resulting from discoveries of new large supplies of money metals (such as occurred between 1855 and 1857 through the California gold discoveries), or resulting from large importations of money metals (such as took place in the United States from 1914 to 1917), or resulting from expansions of the note circulation (such as took place in the United States during the civil war and during the latter part of the world

war); and because it will neutralize any undue general expansion of credit as soon as it makes itself felt. The proposed system similarly will decidedly diminish the chances for the occurrence of general business depressions because it will prevent the price-lowering effect of large exportations of money metals, caused by an unduly liberal tariff policy and consequent excessive imports of foreign goods, or resulting from large investments abroad; because it will neutralize any undue general contraction of credits; because it will supply at all times sufficient money to enable the ordinary processes of production and exchange to proceed on the accustomed basis of a fixed general level of prices; because it will to a great extent eliminate general speculative buying during periods of activity, and therewith the chief cause for a general overstocking of the market; and because in case of an overstocking of the market, it will make it possible to work off the surplus without disturbance of the general price level, and therefore in an orderly manner, without great losses.

The extraordinary influence thus exerted by the governmental monetary system upon the processes of production and exchange under the

law of "demand and supply" may be readily understood from the observation—often neglected—that, in modern business, exchanges of commodities are not made directly, by barter, but indirectly, through money or money substitutes; that every such indirect exchange involves demand for, and supply of, money, as well as demand for, and supply, of commodities; and that under modern business conditions, with their great specialization, and the practical impossibility, thereby created, of either buying or selling goods save through the medium of money or money substitutes, the most important single factor in the determination of average commodity prices by "demand and supply" is the action of the government in adopting this or that medium as money:—even the value of gold and silver being mostly due to the great demand created for them by their extensive use as money.

In this connection mention must be made of a feature of modern production and modern business to which little attention has been given in the discussion of monetary affairs.

This feature is the enormous increase in the number and volume of business transactions that

has resulted from the constant increase of productive power, caused by modern inventions, together with the incidental increased diversification and specialization of industry, and the attendant speedy growth of population.

This increase would have led to a serious general fall of prices, and to a serious business depression, long before 1920, and even long before the great world war, had it not been more than offset first by the immense output of gold since 1897 (see Note 6), and afterwards by undue expansion of paper moneys and credits during the war.

This increase in the production of goods shows no sign of abating, and will require in the years to come larger and larger volumes of legal currency if production and exchange are to be carried on steadily and safely.

Only a currency the purchasing power of

NOTE 6.—This output was so great that the total gold supply of the civilized world, accumulated during all of the preceding centuries, was doubled in about 25 years. It was due only to this unexpected increase in the gold output that the fears, of continued business depression, of those who in 1895 and 1896 fought for the restoration of bimetallism, were not realized.

which is kept stable, can be relied upon to furnish this additional volume so as to expand properly, in an orderly fashion, with the increase of population and of productive capacity.

Without such a currency the full development of national producing capacity will be greatly hampered (see Note 7), except under completely centralized socialist systems; and such systems, with humanity as it is, and for a long time will be, are considered undesirable even by enlightened socialists, because of their strong tendency towards bureaucracy, curtailment of private initiative, enterprise and freedom, and consequent widespread inefficiency.

Before closing this chapter, reference must be made to the proposition that, in view of the steadily increasing productivity of labor, the monetary unit should be fixed so that it will pur-

---

NOTE 7.—The fact that there has been great general progress during some periods of general price declines, does not militate against this proposition. It simply shows that the fruitfulness of modern inventions and the opportunities offered by the opening up of new territories, largely as the result of these inventions, have been so great as to yield favorable net results even in the face of the handicaps imposed by a defective currency system.

chase at all times the same amount of labor rather than of commodities. It is not necessary to enter upon a discussion of this proposition from the standpoint of abstract justice, for the simple reason that in practical application it would result detrimentally.

The very foundation of this proposition is that money should, and that such a money would, buy larger and larger amounts of commodities in the progress of time. If so, then wherever such money would be in use, average commodity prices would be continually declining:—thus making for permanent depression of industry,—the very principal evil to be avoided in the management of monetary affairs.

Another important objection against such a standard is that, with productivity of labor increasing, such a standard would continually favor the creditor class, at the expense of active business, thereby further hampering industry and enterprise.

The great mass of the workers would gain nothing by it:—this for the same reasons on account of which periods of general price declines

are practically always most harmful to the workers, as hereinabove fully explained.

Reference must also be made to the proposition that average prices should be kept stable only in so far as variations are caused by scarcity or oversupply of money or credits, and that changes of average prices resulting from scarcity or relative oversupply of commodities should not be interfered with.

It is contended that if, for instance, through a general crop failure, the prices of agricultural products were greatly increased, and thereby the average price level of commodities were raised, no contraction of the currency, for the purpose of bringing the average price level down to the normal, should be had, because such contraction would tend to create a depression in other lines of business.

Yet there are several practical reasons for strict adherence to the rule that average commodity prices should be kept stable: (1) In so far as general productivity is rising, it has been shown that the money supply should keep step with it. (2) The same evil consequences arise to a large extent from all general rises and falls

of prices, regardless whether such rises and falls result from oversupply or scarcity of money or credits, or result from scarcity or oversupply of commodities. (3) It is often impossible to distinguish clearly to what extent price changes result from scarcity or oversupply of money or credits, and to what extent they result from scarcity or oversupply of commodities; hence, if it were attempted to maintain stability of prices only to the extent of counteracting fluctuations resulting from scarcity or oversupply of money or credits, a high degree of arbitrary discretion would have to be vested in the regulating body. Such arbitrary discretion is undesirable in a matter of this kind. Just as in the administration of law, so here, it is better that an occasional hardship be suffered under fixed rules, than that unlimited discretionary power be exercised.

It will therefore probably be best to prescribe for the practical management of the proposed system the rule that average commodity prices must be kept stable, even though, theoretically, a better rule might be that contraction and expansion of the currency should take place only when there is a fairly general rise or fall of

commodity prices, i. e., a rise or fall which affects at least fifty or sixty per cent of the list of commodities embodied in the price index.

This matter is not of vital importance for the operation of the proposed system. It will work well under either of the rules suggested; and the final settlement of this matter may safely be left to actual experience.

In the United States in particular, with their diversified climate, great territorial area and diversified production, it is next to impossible that unusual conditions affecting one line of products only, could exercise a very great influence on the general level of commodity prices.

If the rule requiring average commodity prices to be kept stable, is adopted, then if extremely extraordinary conditions should make a departure from this rule necessary, relief may still be had by emergency legislation. It is significant, however, that if the system and rule here advocated had been thoroughly established in the United States for the last fifty years, such emergency legislation would as yet not have been required even in a single instance.

At any rate, the hardships continually arising from the gold standard are infinitely worse than such occasional hardships as will arise from the maintenance of stable prices according to the rule here advocated.

CHAPTER III.

COMPARISON OF MONETARY STANDARDS AND SYSTEMS

GOLD STANDARD. SILVER STANDARD. BIMETALLISM. PAPER STANDARDS. MIXED STANDARDS. "ELASTIC" SYSTEMS. CONTROL OF PRICES BY NOTE ISSUES, LOANS AND DISCOUNTS OF CENTRAL BANKS. THE FEDERAL RESERVE BANK SYSTEM. CREDIT MONEY IN GENERAL. DISCREPANCY BETWEEN GOLD STANDARD OBLIGATIONS AND GOLD AVAILABLE FOR THEIR PAYMENT. METALLIC SYSTEMS BOUND TO BREAK DOWN UNDER SEVERE STRAINS AND SUBJECT TO MANIPULATION. LABOR-CHECK MONEY. THE FISHER PLAN FOR STABILIZATION OF THE DOLLAR.

Financiers at the present time are quite generally committed to the gold standard. But gold standard money, notwithstanding many desirable qualities, fails to afford a satisfactory monetary standard because of its lack of stability.

Even in Great Britain, the classical home of the gold standard, prices under it have fluctuated a great deal. Figures from Sauerbeck's cele-

brated price tables of forty-five commodities at wholesale in England illustrate this point. Here are the index numbers for a few years (see Bulletin United States Department of Labor Statistics No. 173, p. 275), showing how much a pound sterling would buy in those years, as compared with a normal of 100 which it would buy on an average during a certain period (1867-1877), and which serves as the basis of comparison:

1846.... 89	1870.... 96	1891.... 72
1849.... 74	1873....111	1896..... 61
1857....105	1879.... 83	1900.... 75
1858.... 91	1880.... 88	1903.... 69
1864....105	1887..... 68	1913.... 85

Later on, during the world war, prices went up to more than double of what they had been in 1913, but gold payments were virtually suspended.

Any other fair gold standard price table will show similar price fluctuations.

Even the blindest admirer of the gold standard should be able to see that fluctuations only one-half or one-third as large as those indicated above, would be grossly excessive as compared

with those which a sound monetary system should permit.

There is not the slightest assurance that in the future gold standard prices will fluctuate less. No man can foretell with any certainty that gold standard prices, based upon the prevailing standards of fineness and weight, will not ten years hence be 50 per cent lower or 100 per cent higher than they are today. The principal elements which may affect them, are, on the one hand, political disturbances, derangements of credits, extension of the gold standard to additional countries, and a decrease in the output of gold, and, on the other hand, more extensive use of credits and paper money, discarding of the gold standard by many nations, large increases in the production of gold, and discoveries making possible the procuring of gold in ways hitherto unknown.

The gold standard furthermore is expensive (1) because most of the gold has to be secured by exceedingly laborious efforts; and (2) because every monetary standard which does not furnish a money of stable purchasing power, is necessarily expensive beyond all calculation, through its detrimental effects on production and on the nor-

mal conduct of business, as shown in the preceding chapter.

What is true concerning the gold standard, is likewise true concerning the silver standard; and the bimetallic standard is not a great deal better.

Coming now to paper standards, it is true that these standards are now being held in almost universal contempt by those in control of financial affairs. Nevertheless they have always (since paper money came into general use) been the last resort in times of war and distress (see Note 8), because gold and silver go into hiding at such times.

Careful examination will reveal that paper standards have come into disrepute only because in so many instances they have become valueless through excessive issues and incidental failure of promised redemption. These excessive issues generally would not have taken place if the underlying principles of a sound monetary policy had

---

NOTE 8.—The most notable instances are the paper issues of the European States which finally overthrew Napoleon; the paper issues of the United States during the the Revolution and the civil war; and the paper issues of all the States heavily involved in the great world war.

been understood. Even the membership of the great "Greenback" party which tried to have the distress, caused in the United States by the withdrawal of part of the paper money issued during the civil war from 1861 to 1865, and by the abolition of the free coinage of silver in 1873, relieved by the resumption of the issuance of legal tender paper money, was to a large extent obsessed by the idea that the more money would be put into circulation, the better it would be for the common people (see Note 9). This error con-

---

NOTE 9.—Some writers have proposed that the United States Government issue paper money to the States and Municipalities in any amounts required by them for the making of public improvements, at low interest or without interest:—such money to be paid back in installments and then cancelled.

Any such issues, if they circulated as money, would necessarily either raise prices above the normal level, or would reduce the amount of paper money which the Federal Government could issue on its own account. To be sure, that would not be the case if these loans were to be made from current funds of the Government, received by way of revenue; but that is not contemplated by the writers advocating such schemes.

Most of these writers get their inspiration from embellished fairy tales about the Guernsey "market-house money." But careful investigation has shown that the Guernsey market house was really built with paper money

tinued to be preached for many years, first by members of the Greenback party, and afterwards by members of the People's party. No wonder then that under the stress of war and public necessity paper money has been issued quite generally to excess where it had become the sole standard of value without any fixed principle of limitation.

Most civilized countries before the great war

(20-shilling notes) issued by the Government of Guernsey, a practically autonomous commonwealth. These notes were issued not only for the building of the market house, but had been previously issued for the building of roads and for the erection of a monument. The issue which was used for the building of the market house amounted to 4,500 pounds, and was redeemed at the rate of 10 per cent each year; the redemption being made from general public funds which were only in part derived from rent for stalls in the market house, while a large portion was derived from a tax on spirits. Other issues of the same kind of notes were made later on up to 1837, but were redeemed only in part, and on December 31, 1905, such notes, of a face value of over 40,000 pounds sterling, were still in circulation. From public records and other sources it appears very clearly that the government of Guernsey was quite conscious of the fact that only a limited amount of this money could be issued to advantage. (See "An Example of Communal Currency," by J. Theodore Harris, with valuable preface by Sidney Webb, 1911.)

used "mixed standards", combining metallic money and uncovered paper money. But no country following such a plan could have maintained the parity of its paper money with gold if it had issued enough paper money to prevent a general fall of its prices from 1873 to 1879. Conversely, during the great war from 1914 to 1918 gold payments were suspended almost everywhere, and the so-called gold standard became practically a fiction. If it were to become a reality again, on the old basis, in all of the countries which formerly were committed to it, a tremendous fall of prices would be inevitable in all gold standard countries. But even if it were to be reinstated on the depreciated basis of present prices, the countries which do not now have a considerable supply of gold on hand, would be heavily taxed for the purpose of procuring an adequate supply.

In any event, a country using metal as a base, and uncovered paper money along with it, is largely dependent upon the supply of the metal and subject to the vagaries of the demand for it, and cannot maintain a fixed average of commodity prices by means of paper money beyond certain limits. Beyond these limits either the stability

of average commodity prices, or the parity of the paper currency with the metal currency cannot be maintained. Such systems are liable to fail the people at the very time when absolute reliability is most needed.

The claim has been made that the amount of metal money available is of comparatively little importance for the regulation of prices; that most of our business is carried on by means of credit money and bank checks, and that therefore the circulating medium can best be regulated by the control of banknote issues, credits and discounts through great central banks. It is on this principle, in connection with a mixed gold standard, that the present monetary systems of Great Britain, France and the United States are based. These systems are known as "elastic systems".

Now, indeed, there is no doubt that prices are influenced to a very large extent by the use of checks, semi legal tender notes, such as the Federal Reserve Notes, and all the other devices by which a highly developed credit system minimizes and supplants the use of actual cash, and that central banks, especially if they have the right to issue banknote currency, can control

prices to a very great extent. Probably more than 98 per cent of the total volume of all payments in the United States are at present made in such credit money. Without that, prices would be much lower. But the amount of metallic legal tender money available has not, on that account, lost its importance under any such system. In fact, in a certain direction its importance is thereby increased.

All credit money under such a system needs as a base, for the maintenance of confidence and for redemption, a certain quantity of metallic legal tender money, not absolutely fixed in proportion, but commonly not reducible below certain limits.

If this limit is exceeded, gold leaves the country, and the note and credit structure becomes unstable.

The knowledge of this fact was the immediate cause of the recent contraction of credits and of Reserve Note circulation in the United States which in turn brought about the great fall of commodity prices and depression of business which has taken place since the autumn of 1920. Federal Reserve Notes had been issued in an

amount of over three billion dollars, coincident with the greatest expansion of credits which the United States has ever known. But the foreign gold which had come to us in large quantities until 1918 and which had helped in sustaining this expansion, had begun to leave the country; note and credit expansion had about reached the ordinary limit of elasticity; imports were falling off; silver also had left the country in large quantities; and foreign investments were alluring. Leading financiers realized that under these circumstances any moment a disastrous failure might occur somewhere, followed by a catastrophic breakdown of the whole vast credit structure then existing. A vigorous policy of "deflation" of credits was thereupon inaugurated, followed by a reduction in the amount of outstanding Federal Reserve Notes, to reverse the flow of gold to foreign countries, and to provide again a liberal margin of "elasticity" for emergency purposes. That this policy of "deflation" was carried out without proper consideration for the farming and stock-raising interests, at too rapid a rate, and in otherwise objectionable ways, made the situation worse, but does not prove that, with

the existing system of money in operation, "deflation" itself was safely avoidable.

The difficulty of the situation was principally due to the fact that the Federal Reserve Banks, instead of doing their best to counteract the great general rise of commodity prices which resulted from the heavy imports of gold during the war, had intensified it by extending huge credits and by issuing large amounts of Federal Reserve Notes. The consequent further general inflation of commodity prices was by no means an unavoidable result of the war. It brought in its train all of the evils, hereinbefore described, which always result from inflation, and also made it necessary for the United States to incur a much larger war debt than otherwise would have been necessary. Even under the existing monetary system this inflation might have been kept down to much more moderate limits if the expansion resulting from the influx of foreign gold had promptly been met by a contraction, instead of expansion, of credits, and if the circulation of Reserve Notes had been kept down. To first permit, and even encourage, average prices to rise 100 to 150 per cent, and then, after huge obligations had been

incurred on the inflated basis, to force average prices back to the old level, was, at best, a grave mistake and resulted in enormous wrong. The war, in its legitimate aspects, could have been financed without it. Inflation and deflation, during and after the war, unnecessarily cost, and are costing, the United States and its people untold billions of dollars, not to mention the incalculable suffering attending the process.

It is manifest that with a monetary system such as is herein proposed, the extraordinary inflation of the currency during and immediately following the great war, as well as the necessity of subsequent deflation, and the incidental great business disturbances, would have been entirely avoided; also that such a monetary system would have kept war taxation and war debts down to probably less than one-half of what they became under the present system (see Note 10).

Not only is a limit imposed under any system which uses a metallic base, on the amount of

---

NOTE 10.—Incidentally the United States paper dollar would probably have commanded during the latter part of the war not less than two to three times as much gold as is contained in the present gold dollar.

credit money which can be safely issued, by the amount of metallic money available, but the larger the credit money circulation becomes in proportion to the metallic base, the more sensitive the whole system is rendered to any contraction or expansion of the metallic base.

If all the circulating media in the United States, for instance, consisted of metallic money, a contraction of the metallic money by five hundred million dollars would mean a contraction of the total circulation by five hundred million dollars only. With a vast amount of credit money based on the metallic money, five hundred million dollars of metallic money withdrawn from circulation are almost certain to carry down with them a vastly greater amount of credits, resulting in a shrinkage of circulation and credits much greater than that indicated by the amount of the metallic money withdrawn. Thus a huge superstructure of credits and credit money, all based on a narrow and inexpansive basis of gold money, makes our monetary system extremely sensitive and exceedingly liable to a grave panic, whenever an unusually active demand for gold arises anywhere.

In any event great central monetary institutions, like the Banks of England, France and Germany, and the Federal Reserve Banks of the United States, can, with the gold standard as a base, do no more than to act as regulators to a certain extent, and to mitigate, and sometimes avert, panics. Average prices have undergone wild fluctuations in all of these countries, notwithstanding the operations of these institutions, and business and the people have suffered accordingly.

Furthermore, any kind of credit money has a strong tendency to be expanded at the very time when prices are generally rising, and to be contracted when prices are generally falling.

When prices are generally rising (i. e., when money is getting cheaper, in the true sense), there is a brisk demand for "money" (see Note 11), even at high interest rates, and ample security

---

NOTE 11.—The attention of readers without technical training in economics is here called to a confusing double meaning of the word "money" in such expressions as "demand for money," "money is dear," "money is cheap," What is usually referred to in commercial reports when these terms are used, is demand for commercial, short-time loans, and the interest and discount rates for loans.

can usually be furnished by the borrowers. It is too much of a strain on human nature, as represented in the management of banks, vested with discretion in the making of loans, to expect it to retrench on loans under such conditions, and thereby to forego the large and perfectly safe profits which loans under such conditions place within reach.

On the other hand, when prices are generally falling (i. e., when money is getting dearer), active business becomes unprofitable, capital is withdrawn from active business, nobody can afford to pay much interest, and collaterals shrink in value. Hence at such times there is little demand for "money" (commercial, short-time loans), money seeks investment in bonds and mortgages; and interest rates fall. An exception to this rule exists during the panicky stage of a depression. At such a time an enormously increased demand for "money" (short-time loans) usually concurs with a general decline of prices, and as a result enormous interest rates are for a while obtainable.

A base of legal tender money the purchasing power of which, with reference to commodities, is

kept substantially stable, independent of note issues and credits, etc., is necessary to counteract the influence, on commodity prices, of the natural expansion and contraction of credits.

Attention must be called in this connection to the ever widening difference between the monetary requirements of modern society, necessary to maintain its complicated system of production and exchange, and the amount of basic money available under any metallic standard, particularly the gold standard. This difference has led in every country where the gold standard is in force, to a glaring discrepancy between the amount of obligations ultimately payable in gold, and the amount of gold available for their payment.

Thus, for instance, in 1920, while the national debt of the United States amounted to about 25,000 million dollars, the indebtedness of the banks of the United States, including the Federal Reserve Banks, to depositors and by reason of outstanding circulation of bank notes (not counting what the banks owed to each other) amounted to over 40,000 million dollars,—of which probably at least 95 per cent was payable on demand or on

thirty to ninety days' notice. At the same time all of these banks together held direct control of only about 2,000 million dollars of gold, and the total gold supply of the United States was only about 2,700 million dollars, while the total monetary gold supply of the world was probably not more than 8,000 to 10,000 million dollars. Suppose now that the holders of but 5 per cent of the indebtedness of the banks had wanted their money, and wanted it in gold, according to what they had a right to expect under the gold standard. That would have meant a demand for 2,000 million dollars in gold; just about all of the gold held by the banks, leaving, if paid, no gold for the payment of the other 38,000 million dollars, owed by the banks, including all of the Federal Reserve Notes, and leaving only 700 million dollars of additional gold in the whole United States for the payment of these 38,000 million dollars, the national debt of the United States of about 25,000 million dollars, and the enormous aggregate debts owed by our States, Counties, Municipal Corporations, railroads, and other public utilities, industrial and mercantile concerns, private mortgagors of city and farm real estate, and

commercial and other current accounts generally.

Of course, things would never have happened that way. Before even 1,500 million dollars would have been handed out to bank depositors in gold (especially if they had been small depositors), payments in gold would have been suspended, the country would have been in the midst of a financial panic that would have paralyzed all but the most urgent business, at least ten million people would have been thrown out of employment, and financial ruin would have been so universal that the loss quickly would have amounted to tens of billions of dollars.

It thus becomes plain that the gold standard, no matter how it may be reinforced, is in reality a mere sham; that it is bound to collapse under any severe strain, either by way of demand for gold, or by a great and cheap increase in the supply of gold (as in case of the discovery of a process for making gold synthetically); that while it exists in substance as at present, the gold standard enables a small coterie of enormously wealthy international financiers to manipulate the flow of gold between gold standard countries, and thereby to raise or depress prices

in any of these countries largely at will; that thereby it places into the hands of these men not only an opportunity for self-enrichment almost beyond conception, but also an enormous influence over financial, commercial, industrial, and political affairs; that the gold standard system thus puts the business community as well as the common people to a great extent at the mercy of these financiers as long as the business community and the people believe in the gold standard; that it is an unreliable, deceptive, treacherous and worrisome institution, lending itself readily to apparently legal, but essentially dishonest financial manipulations on a huge scale, and that it is unworthy of further support in view of the availability of a better system.

It must be replaced by a system that keeps average prices substantially stable; that will respond to monetary raids by international financial pirates as well as to stringencies otherwise arising, by a rapid increase of the circulation, so as to furnish all the money wanted, as long as average prices are kept from rising; and that will, conversely, quickly absorb any surplus of currency, arising from importation, credit expan-

sion or any other cause, but never to the extent of causing a fall of average prices.

Such a currency will be furnished by the writer's plan. It will be reliable and honest; will relieve business of uncertainty about the money supply; will do away with no end of anxiety and worry; and will be worthy of every trust and confidence.

Some writers have advocated the substitution of non-transferable labor checks for money, that is, checks which would be given in payment of labor, are not intended to circulate as money, and would be cancelled as soon as used in payment of goods, transportation, etc. Such labor checks are practicable where all the checks are issued and redeemed on a comparatively small scale by a single employing institution. They are theoretically practicable, on a large scale, in a highly centralized socialist commonwealth where the commonwealth would furnish all facilities and materials for production, distribution and consumption, and would be the only employer and the only provider of necessaries and comforts. But such a condition of centralization is highly undesirable, for reasons mentioned in the preceding

chapter. Furthermore, even in such a commonwealth such labor checks, as a complete substitute for money, would be either much more expensive than regular paper money,—for the reason that each check would be used only for a single transaction; or would be much more subject to counterfeiting,—if got up in a cheap way; or would be much less convenient,—if they could be realized on only in a few places under identification of signatures, etc. On the other hand, while such labor checks would have some advantages over metallic money, they would have none, even in a thoroughly centralized socialist commonwealth, such as hereinabove referred to, over the paper money now suggested; and in any other commonwealth, even a socialist one, they would be infinitely less convenient than such paper money, and well nigh impracticable.

Considering now the plan of Irving Fisher for the stabilization of the dollar by means of the unrestricted issue and redemption of legal tender "gold bullion dollar certificates", it may be briefly stated that each dollar of the Fisher system is to be issued for, and redeemable by, such a quantity of gold as will, at the time of any such

transaction, be of equal value with an ideal "goods-dollar", representing a certain quantity of commodities, according to a price index based on wholesale commodity prices. The Fisher plan would eliminate metallic gold pieces from circulation; would do away with the dollar as representing a fixed weight of gold; would make the gold bullion dollar certificates the principal legal money of the country; and, in its preferred form, would have the government keep in circulation at all times a sufficient amount of the certificates to represent the stock of gold deposited with the government according to the value of such stock in "goods-dollars", by destroying or impounding gold bullion dollar certificates, received in payment of revenue, whenever the stock of gold would shrink in value, and by issuing additional certificates, in payment of expenses, whenever the stock of gold would rise in value:—the government thus shouldering the loss or gain, accordingly as the stock of gold would from time to time become less or more valuable, measured in "goods-dollars", than the certificates outstanding against it.

Such a monetary system would have a de-

cided advantage over the present system for the reason that it would do away with the gold standard (see Note 12). Furthermore, Professor Fisher deserves credit for his clear and forcible denunciation of many of the evils which result from the instability of the present dollar; for his espousal of a commodity value standard; and for his bringing together of much valuable information.

But, compared with the monetary system herein proposed, the Fisher system is inferior (1) because it is complicated, and for that reason more liable to misunderstanding, manipulation and derangement; (2) because it involves the use of gold, and hence a great unnecessary expense; (3) because it will break down, with great loss to the government, in case it shall become possible

---

NOTE 12.—Professor Fisher indeed protests that he does not wish to do away with the gold standard. But his own statement that he wants to "put the standard into the gold standard," is an admission to the effect that he wants to substitute something else for the gold standard. The essence of the gold standard is not the use of gold for redemption, but the use of a fixed weight of gold as the standard for the legal money unit and for the legal measurement of values. Professor Fisher's plan would destroy that standard as effectively as the writer's plan will.

to manufacture gold synthetically by a cheap process, or in case otherwise the production of gold shall be very greatly cheapened; (4) because it involves redemption, and thereby (a) lessens public appreciation of the importance and ease of regulation of value by control of quantity, and (b) invites failure, and loss of confidence, in case of great public distress.

Professor Fisher condemns systems similar to the one advocated by the writer on the ground that they (a) involve discretionary issue of paper money; (b) involve nothing to check inflation; (c) involve a money vaguely assumed to represent commodities, without active redemption, similarly as the French assignats were assumed to represent land, but were not redeemable. The writer is of the opinion that these criticisms cannot be justly applied to the systems advocated by Parsons, Pomeroy and Wallace. Certainly such criticisms will not apply to the monetary system proposed by the writer (a) because that system does not involve discretionary issues of paper money, but quite strictly regulates such issues with reference to stability of purchasing power; (b) because that system places a definite check on

inflation,—a check quite as reliable as any promise of redemption; (c) because the money proposed by the writer does not pretend, and is not assumed, to represent commodities, or gold or land, or any other tangible thing, even though it will most certainly buy all of these things readily as soon as the system will be fully established.

From the standpoint of scientific theory the value of the money proposed by the writer does not rest on any representation of commodities, but on a utility and demand directed by law, through revenue laws, collection laws and legal tender laws, in combination with a supply likewise directed, and also limited, by law. From a practical viewpoint the combination of the laws creating and regulating the proposed money will amount to a guaranty by the government that each dollar of it will always buy, in the open market, a certain average quantity of goods. It is one of the chief advantages of the proposed system that this guaranty can be absolutely made good (after all other money has been eliminated) by mere regulation of quantity of circulation without any redemption by the government. The commodity value index occupies in the writer's

system merely the same relative position as a thermometer occupies in a heating plant.

Incidentally it may be observed that the money proposed by the writer will obtain its equivalent in gold in the open market even more certainly than the Fisher "gold bullion dollar certificates" would obtain their equivalent in gold from the government by way of redemption. The only difference will be that, other things being equal, a unit of the writer's money will fetch more gold than an equivalent unit (measured by a general commodity standard) of the Fisher money would fetch, because the adoption of the writer's plan will lessen the demand for gold, and hence its value.

The Fisher plan would require, substantially, the keeping of three promises by the government: (a) the promise to maintain the proposed money as the fundamental legal money of the country; (b) the promise to maintain the purchasing power of such money substantially stable; and (c) the promise to redeem such money in such an amount of gold as is equivalent to a certain quantity of goods for each dollar involved. The writer's plan will involve only the keeping of the first two

promises, analogously to be made with reference to the money proposed by him. If the government cannot be trusted to keep the first two promises, it certainly cannot be trusted to keep the third. But if the government keeps the first two promises, then the third automatically becomes unnecessary. The redemption of the dollar in such an amount of gold as is equivalent to a certain quantity of goods, as a means for securing the equivalency of the dollar with that quantity of goods, is superfluous since that equivalency may be better and more easily secured by control of quantity, without redemption, as has been clearly demonstrated. As a matter of fact redemption is not only superfluous, but would constitute a weakening factor because it would introduce an element of expense, complication, obscurity, distrust and failure.

What is needed in this matter, is clearness of public perception concerning the true fundamental principles involved, and then bold and resolute action, according to those principles, on simple, easily understood lines.

CHAPTER IV.

PRACTICAL INAUGURATION AND MANAGEMENT OF THE PROPOSED SYSTEM

A. IN THE UNITED STATES.

CREATION OF MONETARY COMMISSION. WEEKLY ASCERTAINMENT OF WHOLESALE PRICES. FORMATION OF PRICE INDEX. REPRESENTATION OF COMMODITIES AND MARKETS. STABILIZATION OF THE DOLLAR WITH REFERENCE TO THE PRICE INDEX. ESTABLISHMENT OF THE NEW MONEY AS STANDARD LEGAL TENDER MONEY. RETIREMENT OF PRESENT CIRCULATING MEDIA. PAYMENT OF GOLD OBLIGATIONS.

B. IN FOREIGN COUNTRIES.

A. The following measures suggest themselves as best adapted for the practical inauguration of the proposed monetary system, through proper legislation to be enacted by Congress:—

No. 1. The constitution of a Monetary Commission charged with the creation and maintenance of such a system.

No. 2. The development, by this Commis-

sion, of the necessary machinery for the ascertainment, from week to week, of average commodity prices, at wholesale, prevailing in the United States.

No. 3. The formulation, by the Commission, of a proper Price Index by which the purchasing power of the new money is to be measured. In the formulation of such an Index the wholesale prices (see Note 13) of various commodities should be taken into consideration in accordance with their comparative importance in the economic life of the nation; and the various principal localities in which the various commodities are dealt in, should likewise be given consideration according to their importance.

No. 4. The selection of a proper monetary unit. Such a unit, for American conditions, might well be a dollar of about the average purchasing power possessed by the United States dollar during the last five years, as measured by well known price-tables, such as those of Bradstreet's, Dun's, and the Bureau of Labor Statistics.

NOTE 13.—Retail prices vary so much that it is difficult to ascertain their average. They also do not reflect trade conditions nearly as quickly as wholesale prices.

No. 5. The printing, by the very best processes, and of the very best materials, of a reasonable quantity of the new money, especially in the smaller denominations; not less, altogether, than say, twenty dollars per capita, before any of the new currency is issued; and complete preparation for the issue, as fast as required, of all necessary additional amounts.

No. 6. The stabilization of the currency of the United States, by the Monetary Commission, through the issue at all times of enough of the new money to bring and keep its purchasing power down to the standard, and by the withdrawal, whenever necessary, of enough of the new money from circulation, to prevent its value from sinking below the standard (See Note 14).

NOTE 14.—While it may often happen that the operations of the Monetary Commission will lag somewhat behind the movement of prices, that is no valid objection to the proposed plan. With weekly observations and the opportunity for weekly corrections of the price level, the mere common knowledge that such correction will take place, will act temporarily as a stabilizing factor to such an extent as to prevent sudden wide aberrations. Furthermore, the Commission might well anticipate such fluctuations as can be clearly foreseen. Any mistake will quickly reveal itself, and may readily be corrected. In any event, whatever

The issues of the new money may be made partly in exchange for existing money, and beyond that preferably by the purchase of governmental and other high-class securities. Withdrawals may be effected preferably by the sale of such purchased securities; and, if necessary beyond that, by the sale of new governmental interest-bearing securities,—the proceeds being temporarily impounded, until again needed for circulation. This method will have the advantage of keeping the operations of the Monetary Commission, pertaining to the creation and maintenance of the new currency, distinct and apart from the ordinary operations of the Treasury. Where, however, it is desired not to deal in interest bearing securities, necessary additions to the currency may be made by using new issues in payment of the ordinary expenses of the Government (thereby directly reducing taxation), while withdrawals may be made by impounding an adequate portion of the money received by way

---

fluctuations of the average price level may still take place, with the proposed system in operation, will be of small consequence, compared with the fluctuations to which the present system exposes us.

of revenue (thereby increasing the amount of revenue to be levied).

No. 7. The establishment of the new money as the standard legal money of the United States and as unlimited legal tender money (see Note 15) at face value, except for the payment of prior obligations made payable by law or legal contract in gold coin, and provisions for the payment of such gold obligations in the new money on the basis of the market value, on the date of maturity, of 25.8 grains of gold, nine-tenths fine, for each gold dollar owing (see Note 16).

NOTE 15.—The objections commonly raised against "fiat" legal tender money are not applicable to the money proposed by the writer, because they are all based on experiences with money which was issued without any effective provision for maintaining its value at a fixed level.

It has been said that "good money" does not require an act of legal tender. The answer is that no money is "good money" which does not possess stable purchasing power with reference to commodities, and that such stability of purchasing power, together with protection of debtors and creditors alike, can best be secured by legal tender legislation applied to paper money, in connection with proper limitation of quantity of circulation.

NOTE 16.—A more just provision might be made for the payment of prior obligations, in view of the great price fluctuations of the last eight years, by requiring such

No. 8. The revocation of all authority of the Treasurer of the United States to borrow gold, and to sell gold notes or gold bonds of the United States, for the purpose of maintaining all legal money of the United States at a parity with gold.

No. 9. The withdrawal, from circulation, of all money, other than the new money and subsidiary coins, as fast as practicable,—

a. by immediately discontinuing gold coins as legal money of the United States and discontinuing their coinage as such;

b. by requiring all gold-certificates, silver-certificates, United States Notes and silver dollars to be presented for redemption and cancella-

---

obligations, whether calling for payment in legal money or in gold coin, to be paid in the new money, according to the time when they were contracted, on the basis of an official table, to be prepared from available statistics, showing for each month, beginning with January, 1914, the commodity purchasing power of money as compared with the commodity purchasing power of the new money.

There probably would be constitutional difficulties in the way of the enactment and carrying out of such a plan in the United States. But something of that sort would be the only scheme by which even approximate justice could be done in those countries of Europe which have had extremely excessive fluctuations of the value of their currency.

tion within, say, six months, and setting aside enough gold to make such redemption, but giving holders an option to take the new money instead of coin;

c. by requiring all National Bank Notes and Federal Reserve Bank Notes to be presented for redemption and cancellation within, say, one year;

d. by abolishing redemption of Federal Reserve Notes at the Treasury Department, and requiring them to be presented for redemption and cancellation at the Federal Reserve Banks within, say, two years (see Note 17);

e. by taking away all legal money qualities from silver dollars, silver-certificates, gold-certificates and United States Notes at the end of six months, from National Bank Notes and Federal Reserve Bank Notes at the end of one year, and

---

NOTE 17.—The National Banks and Federal Reserve Banks may readily obtain all necessary money to make the redemptions required by "c" and "d", through sale of United States Bonds to the Monetary Commission, under "No. 6" above:—this for the reason that the existing National Bank and Reserve Bank circulation will have to be replaced by substantially equal amounts of the new money in order to avoid a great fall of prices.

from Federal Reserve Notes and all other old currency (except subsidiary coins) not specifically mentioned, at the end of two years, and making them redeemable, after such periods, respectively, only in the new money at face value, and at an increasing discount, say two per cent for the first succeeding six months, and two per cent additional for each six months thereafter;

f. by disposing of all gold and silver left on hand, through purchase of United States bonds (see Note 18).

No. 10. The weekly publication by the Commission, in detail, of wholesale commodity prices as ascertained by it, together with comparative figures for preceding periods; also of the Price Index, with comparative figures for preceding periods; also of a detailed statement of the sales and purchases of securities by the commission; its assets, income and disbursements; and a brief

---

NOTE 18.—Gold and silver might still be coined by the United States for purposes of foreign trade. But it would be desirable in many respects not to use the word "dollar" in that connection, but to coin these metals into bars and coins of a uniform standard of nine-tenths fine, of various convenient weights, according to the metric system.

statement of its operations and proposed operations, and the reasons therefor.

No. 11. The prohibition of all bank currency and all other currency other than the new money and subsidiary currency issued by the United States Government.

The following illustration will show the manner in which the Index representing the average of wholesale prices of commodities may be made up for the United States, taking figures at random and not specifying qualities (as the real Index would do):

50,000 bu. of corn	$50,000.00
15,000 bu. of wheat	30,000.00
15,000 bu. of oats	10,000.00
150,000 lbs. of cotton	30,000.00
1,000 tons of hay	20,000.00
100 lbs. of gold	22,000.00
1,000 lbs. of silver	.....
..... tons of pig iron	.....
..... tons of copper	.....
..... tons of bituminous coal	.....
..... yellow pine lumber	.....
..... white oak lumber	.....

Etc., etc. ....

$1,000,000.00

A wholesale price-list of the same amount of commodities should be made up each week; and whenever the aggregate sum resulting, expressing the total price of the same amount of commodities, rises above the standard ($1,000,000.00), it will be an indication that the average of wholesale commodity prices has risen above the normal level, and vice versa.

Each item of the list should refer to certain standard grades; and in making up the total price-sum for each item, the various principal markets should be taken into account according to their importance in respect to production, exchange and consumption of the article in question. Thus, for instance, the sum for wheat may be made up as follows, taking markets and figures at random, the proper statistics not being available:—

Boston	300 bu. No.	$ 650.00
New York	600 bu. No.	1,285.00
Baltimore	500 bu. No.	1,000.00
Atlanta	200 bu. No.	450.00

Cincinnati	300 bu. No.	585.00
Buffalo	300 bu. No.	610.00
Chicago	1500 bu. No. 2,	3,000.00
Minneapolis	1000 bu. No. 1, hard	1,950.00
St. Louis	700 bu. No. 2, soft	1,350.00
New Orleans	300 bu. No.	650.00
Kansas City	800 bu. No.	1,520.00
Etc., etc.	. . . . .	. . . . .
Total	15,000 bu.	$30,000.00

In this manner the total price of the 15,000 bushels of wheat on the Price Index may be made fairly to represent the average price of wheat in the country in a simple and clear manner.

Changes in the list and quantities of the commodities constituting the basis of the Index, to make room for new articles of production and consumption, or to eliminate articles which have ceased to be used, or to assign a different standing to articles which have gained or lost in importance, or to assign a different rating to the various markets, may be undertaken from time to time as occasion may demand, since the aggregate sum may, by proper additions or deductions of other items, be easily so arranged as to result

in a total of $1,000,000.00 when prices are normal. Absolute perfection will be unattainable and unnecessary. A rough and ready, but fair, approximation is all that is required.

B. The suggestions above made for the introduction and management of the proposed monetary system in the United States may be followed in a general way in its introduction and management in other countries.

Its inexpensiveness makes it particularly fit for immediate adoption by those European countries the currencies of which have been ruined through the great war.

The first consideration for all those countries, as far as monetary affairs are concerned, should be the immediate establishment of a reliable currency of stable purchasing power. This goal can be reached without delay by any one of these countries through the adoption of the monetary system hereinabove described, coupled with elimination of the existing currency as legal money.

This elimination may be effected by issuing the new money at some simple ratio in exchange for the present money, such as for instance a ratio of 1 to 20 or 1 to 30 in Germany, and perhaps

1 to 200 or 1 to 300 in Poland. This, of course, would apply only to government issues of the old money. Bank note issues would have to be retired by the banks, and they might obtain the necessary money for the retirement of their circulation by borrowing it from the government upon security, or by selling securities to the government at market value.

Whatever average price level may result from this procedure, may thereafter be maintained as the normal price level. There should, of course, be a scaling of all prices, wages, charges and recently incurred obligations in proportion to the ratio fixed for the exchange of the new money against the old money. As to older obligations it would seem desirable that a table should be prepared, as hereinabove suggested (see Note 16), for the valuation, in the new money, of all prior just obligations still in force, according to the time when they were incurred, and that all such obligations should be required to be paid primarily in accordance with that table. It would probably be necessary to further scale down many of these obligations for other equitable considerations, among them the impairment

of property values which has taken place in many of the European countries and which has greatly reduced the ability of many debtors to pay.

Good judgment will have to be exercised in the solution of these problems and of others which will arise in connection with them, according to the conditions of each country. It is beyond the purview of this book to discuss these matters at length; but it may not be amiss to call attention to the fact that all attempts to do exact justice will utterly fail; that a literal interpretation of obligations would lead to most unjust results, and should be frowned upon as absurd and fraudulent in view of the conditions which have resulted from the war; that only by the broadest application of equitable principles even approximate justice can be done; and that in any event the attainment of healthy conditions for the future must be considered as of more importance than the doing of justice with reference to the past.

It is from this standpoint that the establishment of a currency of stable purchasing power becomes of primary importance. By means of the proposed monetary system such a currency

can be created by each country without outside assistance, in entire independence of the international bankers, and with a saving, in the aggregate, of many billions of dollars.

Of course the new money will not at once be readily accepted abroad; and countries adopting it which are dependent on foreign supplies and which do not have sufficient commodities to offer in exchange, may still be under necessity of obtaining foreign credits, payable in gold. But they may at least conduct their internal affairs without gold; may restore to themselves quickly healthy financial conditions; may get rid of fluctuations of average commodity prices within their borders, together with the attendant disturbances of business and other vicissitudes to which a domestic gold standard currency would expose them; and as soon as they shall have established sound conditions, will be able to liquidate their foreign gold obligations more easily than if they had adopted a gold standard currency system for themselves.

CHAPTER V.

INCIDENTAL ADVANTAGES OF THE PROPOSED SYSTEM

INEXPENSIVENESS. SAVING OF TAXES. FINANCIAL EMANCIPATION. AID TO COOPERATIVE BANKING. STABILIZATION OF ECONOMIC RELATIONS. ELIMINATION OF REDEMPTION RISKS. ELIMINATION OF HOARDING. REDUCTION OF DANGER OF OVERISSUES. PROTECTION AGAINST FOREIGN MONETARY DISTURBANCES. STABILIZATION OF FOREIGN EXCHANGE. ELIMINATION OF UNCERTAINTY CONCERNING THE MONEY SUPPLY. INCREASING OF REAL WAGES. SPEEDY REVIVAL OF BUSINESS AND EMPLOYMENT.

1. A system such as is hereinabove outlined will be a source of considerable gain to each commonwealth adopting it. The more money will be required with the growth of population and production, the more bonds, etc., can be purchased by, or the more net revenue can be derived from, necessary additional issues of the new currency. The new money will cost the Government very little; and with growing population and produc-

tion the amount of bonds to be purchased, or revenue to be saved through new issues, will in the long run always greatly exceed the amount of bonds to be sold, or of revenue to be sacrificed, for contraction purposes, in cases of rises of average prices. In fact, as long as population and production shall be increasing, there will rarely be occasion for any contraction of the currency, because any small overissues of the new money will quickly be compensated for by growth of population and of business.

Furthermore, in so far as existing circulation consists of metal or of bank notes (see Note 19), the forced withdrawals of these items from the circulation will create a large gap which must be filled, upon the introduction of the new system, by the new money. In the United States the gross annual gain to the Government from this

---

NOTE 19.—The providing of money is essentially a privilege of sovereignty. It should rest entirely in the hands of the Government,—as much so as the control of the Army and Navy. All profits from the issue of money should go to the public, through the Government, and should not be divided with private institutions. Banks do not need to participate in these profits, directly or indirectly, in order to perform their legitimate functions.

source, on the basis of present monetary conditions, would probably be not less than 150 million dollars, represented by interest on bonds to the amount of about 3½ billion dollars to be purchased with the new issues upon introduction of the new system (see Note 20). This gain will be in part offset by loss of taxes on bank-note circulation, and by reduction of income from Federal Reserve Bank profits, etc.; but the net gain per year will probably be in excess of 100 million dollars.

2. The proposed system will break the power of the international financiers over the state or

---

NOTE 20.—It must be plainly understood that paper money may be issued to advantage in replacement of bonds only to the extent that its issue will not cause prices to rise beyond the normal. The power of any government to confer value upon paper money is strictly limited. The idea that a government may secure for itself or for subordinate political units unlimited credit, free of interest, by issuing unlimited amounts of paper money, is utterly untenable,—regardless whether such paper money is to be periodically retired or not. Any attempt to carry such schemes into effect beyond the limit indicated, will result in an undue rise of prices, with all its vicious consequences set forth in Chapter II above.

nation adopting it. With a gold standard they have it in their power, by manipulating the flow of gold and of credits, to create prosperity or panic to a large extent at will, to make and break governments, and to exact, in various ways, unfair tribute to their control over gold. The proposed system will enable the various governments to keep prices within their jurisdictions stable, and to provide all necessary money themselves. It is notable in this connection that the making of foreign loans by the financiers of a country which has adopted the proposed system, will not affect the level of average commodity prices in such country, even if actual exportation of the money loaned takes place.

3. The proposed currency system will aid and protect the development of co-operative banks and other banking institutions of the common people. With the present monetary systems such institutions usually soon find themselves at the mercy of concentrated hostile capital. With the new system in operation they will be protected from sudden shrinkages of average commodity prices and from dangerous money stringencies.

4. The proposed money, by preventing great fluctuations of prices, will have a strong tendency to stabilize the whole economic life of the nation; will make it more difficult to amass fortunes by devious ways; will make it possible for the common people to understand financial phenomena; will tend to equalize opportunities; will promote finer and more permanent adjustment of economic relations; will reduce the risk of doing business; will make employment more steady; will develop a feeling of security, confidence and trust; will foster economy and thrift; and will enhance productivity in a thousand ways. It will also materially tend to promote a settlement of the relations of capital and labor on a just basis,—helping to convert capital more and more into an instrument for the promotion of the commn welfare, and yet will encourage individual initiative and enterprise.

5. The proposed money will have a great advantage over redeemable paper money in this, that the value of the latter largely depends on the ability of the Government to redeem in metallic money, and whenever through war or other disturbances, or by a sudden rise in the demand

for such metallic money, the ability of the Government to redeem is endangered or impaired, there is at once a weakening of confidence in the redeemable paper money, with the result that the money falls in value, prices are deranged, the whole economic life of the country is upset, and excessive debts have to be incurred by the Government.

6. A special advantage of the proposed money will be that it will pay nobody to hoard it. Hence, in case of war or other public danger, the regular course of business will be much less liable to interruption by a sudden derangement of prices, credits, and production, than where a metallic money system prevails.

7. The danger from overissues is much exaggerated. Once let the underlying principles of a sound paper currency be thoroughly understood by the people, and they will be firmly opposed to any overissues. Then nobody will be afraid of such paper money any more than anybody is now afraid of accepting government bonds. The latter are just as susceptible of being issued to excess as paper money; and yet the same financiers who cannot find words strong enough with which to

denounce and condemn irredeemable paper money on account of the danger of overissues, are quite particularly fond of interest bearing government bonds.

8. The proposed money will tend to maintain rates of interest at a moderate level because enterprise will not have to depend so much on fitful credits as now, and because in a pinch money will be forthcoming, without cost, from the Government to sustain prices, thus relieving to a large extent the necessities of debtors.

9. The proposed money will protect the countries adopting it against disturbances of their average price levels by imports or exports of gold and silver. At present all serious disturbances of the foreign money metal market by war, business depressions, political upheavals, etc., at once affect average prices at home, often in a very disastrous way (see Note 21).

NOTE 21.—This is one of the considerations which makes the establishment of a "world-money" undesirable as well as impracticable for a long time to come. There is also as yet too much diversity of national interests and aims to make anything of that kind now feasible. Furthermore, a world-money of stable purchasing power throughout the world might easily be manipulated so as to offset

A so-called "parity" of exchange (really a mere approximation to a fixed rate), based on gold values, is in this respect a great disadvantage because it promotes the disturbance of average prices at home by foreign monetary crises. Besides, "parity of exchange", even between most countries which are nominally committed to the gold standard, is gone, and will remain gone for many years to come. Whatever advantages arise from "parity of exchange", are trifling as compared with the advantages which will be conferred by a money of stable average purchasing power. Under such world conditions as we now have, and for a long time shall have, it would be utter folly to sacrifice stability of average prices

---

great declines of average prices on one or two continents by great advances of average prices on another continent. Distances are too great and connections too limited for the speedy equalization of such conditions in the ordinary course of business, such as would take place within the same country if such contrasts should appear. A "world-money" under present conditions would merely increase the influence and power of the international money lenders, and would do more harm than good to the great masses of the people and to legitimate business. It would tend to shackle the independence of nations, and would take away one of the most essential elements of sovereignty.

at home to the attainment even of a perfect parity of exchange with foreign countries.

Foreign exchange, under the proposed system, will be bought and sold, at market prices, just as now. The proposed money will very soon acquire a normal standing, and will be readily accepted in the settlement of foreign accounts, in many cases in preference to gold. The general adoption of the proposed system would have a decided tendency towards stabilization of foreign exchange, because the money of each country adopting it will have a fairly definite value. In any event international balances may easily be settled in gold, just as now, on a bullion basis, because gold, or gold coin, will be bought and sold, where the proposed system is in operation, like other commodities.

10. The proposed monetary system will rid industry, agriculture, trade and banking of uncertainty concerning the money supply.

The only people who, under present conditions, can with any degree of correctness forecast the movements of the money supply, are the international bankers who manipulate that supply, and their political and business associates.

The immense majority, not only of the people at large, but also of even the more prominent business men and bankers, can only guess and worry about this thing as long as the gold standard system is allowed to prevail. They will borrow and lend with enthusiasm when the current of gold runs one way, glad of the boom in prices and the "good times", and will sweat blood, stew about "frozen loans" and squeeze their neighbors, in an effort to save themselves and to "restore normalcy", when the current tends to run the other way,—sometimes beneficiaries, sometimes victims, and all the time aids to an inequitable system which they cannot control, but which largely controls them.

The proposed system will supplant this uncertainly with certainty,—certaintly that average prices will remain stable; certainty that neither expansion nor contraction of credits, nor foreign affairs, nor ups or downs in the supply of, or demand for, commodities or gold will be able to upset this order of affairs; and certainty that business and banking, as far as the supply of legal money is concerned, are on a solid and stable foundation, with just the proper amount of elas-

ticity always automatically responding at the right time.

11. The proposed system will insure a reasonably uniform purchasing power of wages and salaries, and will do away with the neutralization of hard-won increases in wages and salaries by a general advancement of prices.

It will also tend to increase wages and salaries, and will make employment more steady and regular. In this connection it must be remembered that real wages (i. e., wages considered with reference to total purchasing power) depend far less on increases of the rate of pay, than on constancy of employment, high productivity of labor, and ability of labor to secure for itself its fair share of the product. All of these things will be fostered by the proposed monetary system because it will promote steady development of agriculture, industry and trade, together with a steady demand for labor and steady purchasing power of wages.

12. Last, but not least, the proposed monetary system will be a most potent instrument for a speedy revival of business and employment. In the United States in particular such a revival will

take place immediately upon the inauguration of that system:—this for the reason that in the United States a real demand for the products of most industries is coupled with great productive capacity in resources, machinery and man power. This revival is now held back because business men generally are afraid that prices have not yet "touched bottom", and because they do not feel assured concerning the future money supply. When business men can feel assured that average prices will go up rather than down; that after a certain pre-determined level of average prices has been reached, that level will be steadily maintained; and that ample money will always be available to maintain that level, business will start with a rush, and production will proceed without a let-up until human wants are satisfied to a much higher degree than they ever were before.

BRIGHAM YOUNG UNIVERSITY
3 1197 20223 9064

MAR 15 '33